

M e m o r a n d u m

Date: December 12, 2008

To: Office of the Commissioner
Attention: Commissioner Joe Farrow

From: **DEPARTMENT OF CALIFORNIA HIGHWAY PATROL**
Office of Assistant Commissioner, Inspector General

File No.: 005.9968.A13709.010

Subject: FOLLOW-UP REVIEW OF THE 2006 ACADEMY FUND AUDIT

On August 15, 2006, the Office of the Commissioner directed the Office of Internal Affairs, Audits and Evaluation Unit, reorganized under the Office of Inspections, Audits Unit, to perform an audit of several fund accounts and components within the California Highway Patrol (CHP) Academy. This request was initiated as the result of alleged misappropriation of funds by an Academy Office Technician. At that time, Commissioner M. L. Brown requested an audit of the fund accounts for three fiscal years (FY) 2003/2004, 2004/2005, and 2005/2006.

The review consisted of assessing the corrective actions completed, as documented in the Academy's response memo. The Audits Unit's auditor reviewed:

- Weekly Transmittals reports for the period of September 2007 and March 2008 retained by the Academy and Fiscal Management Section
- Supporting documents such as copies of money orders, checks, and adding machine tapes
- 091-240A (previously Std. 520), Report of Meal Ticket Sales
- 091-67, Record of Meals Served
- CHP 264, Fund Reimbursement Request Form
- Std. 439, Cash Disbursement Voucher Form
- Motor Account General Ledger

The following is the Executive Summary regarding the Office of the Academy's implementation of corrective actions. For more detail, please refer to attachment 1.

FINDING 1: Missing transmittals and shortage of funds. - Fully Implemented.

FINDING 2: Untimely conversions of cash to money orders. Weekly submission of transmittal records. - Fully Implemented.

FINDING 3: Reconciliation of meal tickets. - Fully Implemented.

FINDING 4: Discrepancy between meals sold and meals served. - Fully Implemented.

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FINDING 5: Dining Facility - Separation of duties and general accountability discrepancies. - Fully Implemented.

FINDING 6: Petty cash account was not maintained or audited as mandated by departmental policy. - Partially Implemented.

FINDING 7: Academy Safe. - Finding was withdrawn by Audits Unit.

FINDING 8: Motor Account unaccounted and irreconcilable receivables. - Fully Implemented.

The Office of the Academy has taken many proactive steps to resolve the findings identified in the 2006 Academy Fund Audit. Hence, the auditor believes the necessary corrective actions to address Finding 6's partial implementation can be taken to achieve full implementation by the Academy. The Audits Unit will examine corrective actions taken when it conducts its command audit of the Academy in December 2008. If you have any questions, please contact Roger Ikemoto, Senior Management Auditor at (916) 451-8405.


M. C. A. SANTIAGO
Assistant Commissioner

Attachment

cc: Office of the Assistant Commissioner, Leadership Development and Communications
Office of the Academy
Office of Inspections, Commander

ACADEMY FUND AUDIT FOLLOW-UP MAY 2008

On January 5, 2007, the Office of the Commissioner sent a memorandum to the Office of the Academy (Academy) requesting a response to the 2006 Academy Fund Audit. The memorandum also established that the Audits Unit would be following-up on the 2006 Academy Fund Audit and requested documents based on the Academy's response to audit findings.

This review is an assessment of the corrective actions completed, as documented in the Academy's response memorandum. Prior to the arrival of the auditor, a request for documents was submitted by the auditor to the Academy. The Audits Unit's auditor began the follow-up review on April 16, 2008.

The Audits Unit reviewed:

- Weekly Transmittals reports for the period of September 2007 and March 2008 retained by the Academy and Fiscal Management Section (FMS)
- Supporting documents such as copies of money orders, checks, and adding machine tapes
- 091-240A (previously Std. 520), Report of Meal Ticket Sales
- 091-67, Record of Meals Served
- CHP 264, Fund Reimbursement Request Form
- Std. 439, Cash Disbursement Voucher Form
- Motor Account General Ledger

Finding 1:

Missing transmittals and shortage of funds.

Condition:

1. An analysis of transmittal copies retained by the Academy (original documents are retained at FMS), revealed that five transmittal records in 2005 and ten transmittal records in 2006, with accompanying funds, were not received by FMS. The missing transmittal records represent \$18,491 in unaccounted funds.
2. A reconciliation of the weekly transmittal records retained by the Academy to the records maintained at FMS, substantiated the shortage of \$967.50 reported by the Academy on August 2006.

Criteria:

1. CHP General Order 11.4, paragraph 5(d)(1) states "CHP 230, Transmittal Records and STD 520¹, Report of Meal Ticket Sales, together with monies received from the sale of meals, shall be sent to Accounting Section weekly, no later than five working days following the week covered by the report."

¹ STD 520, Report of Meal Ticket Sales, is a discontinued Department General Services form. Form 091-240A was developed internally as a substitute form.

2. Highway Patrol Manual (HPM) 11.1, Administrative Procedures Manual, Chapter 4, Miscellaneous Sales - Transmittal of Collections, paragraph 11(j), Shortage Due to Lost Transmittal, states, when a transmittal is lost in the mail, FMS Cashiering Unit will contact the field command for a copy of the transmittal, counter receipts, special certificates and other documents.

3. HPM 11.1, Administrative Procedures Manual, Chapter 4, paragraph 11(i), Preparing/Assembling the Transmittal, states the transmittal shall be prepared in triplicate. Separate adding machine tapes for counter receipts/certificates, checks and/or money orders, and transmittal shall be prepared; all three tapes must agree. Counter receipts, certificates, and non-receipted monies must balance to money transmitted then adding machine tapes are attached to the transmittal. All transmittals must be signed by the preparer and the commander.

Auditee Response:

1. Weekly transmittals are completed for the preceding five work days (Friday - Thursday) and submitted to FMS by Tuesday of the following week.
2. In preparing and assembling these weekly transmittals, the Account Technician (AT) generates adding machine tapes for an accounting of the number of tickets sold, the amount of monies which should be collected, and the actual cash and/or checks received.
3. Once the weekly sales are balanced, the money collected is recounted and verified by the AT. The funds are then taken to the local post office and converted to money order(s).
4. Completed transmittals and all supporting documents are reviewed for accuracy and completeness by the Unit Supervisor and Program Manager. The transmittals are then reviewed by the Academy Commander.
5. Immediately following the initial review, measures were coordinated with FMS for a memorandum to be generated and sent to the Academy Commander in the event a transmittal is not received in accordance with departmental policy. Since the Academy instituted the above procedures, no notices have been received by the Academy from FMS.

Auditor Observation: Based on a review of Academy and FMS's weekly transmittal reports and supporting documents for the months of September 2007 and March 2008, the amount reflected on the transmittal report is substantiated with actual monetary instruments, i.e., checks, money, and adding machine tapes. The transmittal reports were signed by the proper authorities and copies of meal ticket book covers, adding machine tapes, and checks were made and retained.

Auditor reviewed and compared transmittal reports retained by the Academy and FMS. The amount on the transmittals provided by the Academy agreed with the amount on the original transmittals retained by FMS. The transmittal log verified that transmittal reports were prepared within five working days following the week covered by the report and sent to FMS.

Auditor Conclusion: Fully Implemented.

Finding 2: **Untimely conversions of cash to money orders. Weekly submission of transmittal records.**

Condition:

1. Cash was not converted to money order(s) on a weekly basis. Thirty-six instances were observed where money order(s) for multiple transmittal records were purchased on the same date. In one instance, the money order for the week ending in May 11, 2006, was not purchased until July 26, 2006.
2. The mandated weekly transmittals were not submitted on a weekly basis to FMS. As many as four separate transmittal records indicate multiple transmittals were prepared at the same time.

Criteria:

1. Academy's Desktop Standard Operating Procedures (SOP), Daily Ticket Sales Weekly Transmittal, states the following: "The week runs Friday to Thursday for the weekly transmittal (CHP 230). Each week the report is to be done... We do not send cash over with the transmittal. The money is sent by money order."
2. CHP General Order 11.4, Feeding Facilities at the California Highway Patrol, paragraph 5(d)(1), states "CHP 230, Transmittal Record, and STD 520, Report of Meal Ticket Sales together with monies received from the sale of meals, shall be sent to Accounting Section weekly, no later than five working days following the week covered by the report."
3. HPM 11.1, Chapter 4, paragraph 11(a), Transmittal of Collections, Frequency and Maximum Amounts, requires collections for sales, payments, and/or witness fee deposits shall be transmitted to FMS, Cashiering Unit, weekly or when cash exceeds \$1,000, whichever occurs first.

Auditee Response: To avoid repetition and for the purpose of clarity, Auditee Response to Finding 1 also serves as the Academy's response to Finding 2.

Auditor Observation: Based on a review of the September 2007 and March 2008 weekly transmittal reports and supporting documents such as transmittal logs, money orders purchased, and transmittal reports prepared, the Academy sent the required documents within five working days following the week covered by the report to FMS. Copies of money orders were made and retained after being purchased from the post office then stamped with the CHP stamp.

Auditor Conclusion: Fully Implemented.

Finding 3: **Reconciliation of meal tickets.**

Condition: A reconciliation of the dining facility's "Meal Tickets Sold" worksheets to the Academy weekly transmittal records, revealed a shortage of \$131.50.

Criteria: Academy SOP 3.14, Meal Ticket Sales/Cash Procedures, paragraph 6(f), states "All monies collected are to be reconciled daily utilizing the Meal Tickets Sold worksheet, Form 091-240 (Annex A) and the Report of Meal Ticket Sales, Form 091-240A (Annex D), then returned to the Clerical Unit to be kept in the Academy's safe. The Clerical Unit is responsible to send monies collected and written reports to the Department's Accounting Section."

Auditee Response:

1. Following each day's lunch period, the monies collected from the sale of meal tickets are provided to the Academy's Clerical Unit. The AT counts the monies and verifies accuracy against the Std. 520, Report of Meal Ticket Sales, which is completed and signed by the ticket seller in ink; signs the report acknowledging the monies/tickets submitted; provides a copy of the completed forms to the Dining Facility; balances the change drawer for the next day; and secures the monies in the Academy safe.
2. The purchase and redemption locations of meal tickets are in two separate buildings. Meal tickets are purchased at the front desk in the Academy's Administrative Building from the Office Technician (OT) or Food Manager tasked with handling this responsibility. The tickets are then redeemed at the Dining Facility.
3. The authorization for a single price for all meals was sought and approved by executive management. The implementation of a singular price-point has allowed for ticket sales to be tracked and recorded by adding machine tape, resulting in better control over the accounting of meal ticket sales.

Auditor Observation: Based on a review of the September 2007 and March 2008 weekly transmittal reports and supporting documents then reconciling them with the Std. 520, Report of Meal Tickets Sales, worksheets, the auditor determined the meal tickets sold worksheets reconciled with the amount reflected on the Academy weekly transmittal reports.

Auditor Conclusion: Fully Implemented.

Finding 4: **Discrepancy between meals sold and meals served.**

Condition: After reviewing the form 091-67, Record of Meals Served, prepared by the dining facility, a number of daily paid meals served did not agree with the number of meal tickets sold, as indicated on form 091-240, Meal Tickets Sold.

Criteria: 1. CHP General Order (GO) 11.4, Feeding Facilities at the California Highway Patrol Academy, paragraph 5(b), requires that all meals eaten at the Academy shall be accounted for on form 091-67, Record of Meals Served.

2. Academy SOP 3.14, Meal Ticket Sales/Cash Procedures, paragraph 6(g), requires that the number of tickets sold shall be tracked daily and reported monthly on form 091-67, Record of Meals Served.

3. State Administrative Manual (SAM), Chapter 20050, Internal Control, states Financial Integrity and State Manager's Accountability (FISMA) Act of 1983 (Government Code 13403 (6)) requires an effective system of internal review.

Auditee Response: To avoid repetition and for the purpose of clarity, Auditee Response to Finding 3 also serves as the Academy's response to Finding 4.

Auditor Observation: Auditor reviewed and compared the daily reconciliation Std. 520, Report of Meal Tickets Sales, worksheets to the form 091-67, Record of Meals Served, prepared by the dining facility; there were discrepancies. However, according to Ralph Wheeler, Food Manager, the meal tickets sold and meals served do not necessarily reconcile because people may purchase multiple tickets in advance and use them over a period of time. Based on the auditor's observation during the fieldwork, the auditor agrees with the Mr. Wheeler's justification for discrepancies between the meal tickets sold and meals served.

Auditor Conclusion: Fully Implemented.

Finding 5: **Dining Facility - Separation of duties and general accountability discrepancies.**

Condition: 1. The Academy dining facility uses the same employee to sell the meal ticket, collect the money, and complete the required forms (091-240A, Report of Meal Ticket Sales, and 091-240, Meal Tickets Sold). This procedure lacks proper monetary accountability.

2. Form 091-240, Meal Tickets Sold, were not always signed by the preparer. In addition, all meal ticket sales forms were completed in pencil instead of pen. This practice allows potential manipulation of the form.

3. None of the meal ticket sales forms were completed or signed by staff within the Academy's Clerical Unit. This is a requirement when cash is submitted to the unit.

Criteria:

1. SAM, Chapter 8080, Separation of Duties -A key element in a system of internal control is separation of duties.

2. SAM, Chapter 20050, Internal Control, states FISMA (Government Code 13403 (3)) requires a system of authorization and record keeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

3. Best business practices dictate a receipt be given when money is received. Form 091-240A, Report of Meal Ticket Sales, accommodates the signature of the ticket seller and signature of person receiving the report with cash.

Auditee Response:

To avoid repetition and for the purpose of clarity, Auditee Response to Finding 3 also serves as the Academy's response to Finding 5.

Auditor Observation:

Based on an observation during fieldwork, the purchase and redemption locations of meal tickets are now located in two separate buildings. Meal tickets are sold at the front desk in the Academy's Administration building and tickets are redeemed at the dining facility.

Based on a review of the forms 091-240A (previously Std. 520), all meal ticket sale forms were completed in pen and signed by staff within the Academy's Clerical Unit.

Auditor Conclusion:

Fully Implemented.

Finding 6:

Petty cash account was not maintained or audited as mandated by departmental policy.

Condition:

1. Petty cash replenishment requests were not completed on a monthly basis.

2. Required audits (based on fund amount) of the petty cash account were not conducted quarterly. During the review period, it was determined that five quarterly reconciliations were not completed. Also, one overage of the petty cash fund amount (exceeded \$300) was not recognized nor reported to Accounting Section.

3. There is a lack of separation of duties. The same person maintains, authorizes and performs the cash audit, and prepares the replenishment requests.

- Criteria:**
1. HPM 11.2, Chapter 2, paragraph 11, states "A list of receipts and/or STD. 439s shall be prepared in triplicate on CHP 264 at least monthly if over \$10.00, quarterly if under \$10.00, and on June 30 of each fiscal year."
 2. HPM 11.2, Chapter 2, paragraph 10(a), states the total amount of cash, receipts on hand, and receipts in transit must equal the total fund at all times. The commander shall designate someone to periodically audit the fund and conduct surprise audits on a quarterly basis.
 3. SAM, Chapter 8080, Separation of Duties -A key element in a system of internal control is separation of duties.

- Auditee Response:**
1. The Academy's Clerical Unit Supervisor, or in her absence, the assigned OT, is responsible for the issuance of petty cash. The AT balances the Petty Cash Fund and prepares the CHP 264, Fund Reimbursement Request Form, as required.
 2. The Program Manager reviews the Petty Cash Fund on a quarterly basis.
 3. The Clerical Unit Supervisor utilizes suspenses to ensure the completion and submission of the Petty Cash Fund Reimbursement Request in accordance with policy, the weekly transmittals with money orders and checks, and return of the proof of receipt of the transmittal from FMS.

Auditor Observation: Based on a review of the CHP 264s for the months of September 2007 and March 2007, the forms were not completed in a timely manner as required by departmental policy and one of the three CHP 264s was not signed by the commander.

Required quarterly reviews of the petty cash account were conducted by the Program Manager and the total amount of cash, receipts on hand, and receipts in transit equal the total funds.

Based on a review of the separation of duties matrix, internal controls over petty cash is not in place. The same person maintains cash, prepares the CHP 264, and requests and authorizes the Std. 439, Cash Disbursement Voucher Form. Responsibility for the preparation and authorization of the Std. 439 should be different individuals.

NOTE: After the auditor completed the review and provided the information to the Academy. Academy staff proactively instituted corrective actions to resolve the above deficiencies. These actions have not been fully evaluated by the auditor. However, the Audits Unit will examine these corrective actions when it conducts its command audit of the Academy in December 2008.

Auditor Conclusion: Partially Implemented.

Finding 7: **Academy Safe**

This audit finding was withdrawn by the Audits Unit.

Finding 8: **Motor Account unaccounted and irreconcilable receivables.**

Condition: 1. For the years 2003 to 2006, the total absolute value variance of \$6,372.87 (as indicated in the table below) was identified between the amounts received by check to the amounts reflected on the transmittals for the Motor Account.

Year	Amount received per check copies	Amount on Transmittals for Motor Account	Variance
2003	\$7,333.20	\$6,461.50	-\$871.70
2004	\$12,511.88	\$14,005.05	\$1,493.17
2005	\$24,608.38	\$23,907.52	-\$700.86
2006	\$4,136.96	\$7,444.10	\$3,307.14
Total Absolute Value			\$6,372.87

2. Three counter receipts were issued for checks received in 2006. The three counter receipts accounted for \$1,244.76 of the \$4,136.96 checks (copies) received.

Criteria: HPM 11.1, Chapter 4, 11(i), states "Counter receipts, certificates, and non-receipted monies must balance to the money transmitted."

Auditee Response:

- Counter receipts are prepared by the assigned Clerical Unit member for motorcycle training payment received, as well as any other funds accepted by the Clerical Unit (i.e., witness fees, group lunch fees). Copies of the counter receipts and checks are then attached to the transmittal record copy of the document submitted to FMS on a weekly basis.
- All monies received from allied agencies relative to motorcycle training are transmitted to FMS with the CHP 230, Transmittal Record, on a weekly basis. Any reimbursements for training not completed are forwarded to FMS for issuance of a refund.

3. To assist with the quarterly reviews conducted of the motors fund account, a general ledger was developed and is used to track and account for the allied agency payments received, receipts are issued and refunds initiated. Reviews of these funds are conducted by the Program Manager on a quarterly basis.

Auditor Observation: Based on a review of the general ledger and associated documentation for the month of September 2007 and March 2008, the general ledger for the motor account is used to track and account for the allied agency payments received, receipts issued, and refunds initiated. Review of the motor account was conducted by the Program Manager on a quarterly basis and the amount listed on copies of checks reconciled to the amount recorded on the transmittal reports.

However, while reviewing if corrective action for this finding was in place, the auditor noted an internal control weakness (i.e., separation of duties). This control weakness was based on a review of the separation of duties matrix, which listed the same individual received payments, prepared and issued counter receipts, made copies of checks, initiated refunds, and posted entries to the motor account general ledger.

Auditor Conclusion: The Academy has fully implemented corrective actions based on the reported finding in the 2006 Academy Fund Audit report. However, a review of the separation of duties matrix indicates a lack of internal control, which increases the potential risk of the Department.